Outlook 2002

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Marketing Outlook

Livestock and Poultry Industries. Overall, improved returns are expected to boost pork and poultry production in 2002. Beef production is expected to decline because of a continuing decline in the cattle inventory, and a lag in any increased production resulting from eventual expansion of the breeding herd. Lamb production is expected to decline again in 2002.

The cattle cycle has not yet entered an expansion phase. Last year's harsh winter curtailed beef supplies and led to higher fed cattle prices in 2001. Those prices, in conjunction with drought-induced poor grazing conditions, resulted in many heifers being placed on feed rather than entering the breeding herd. Herd expansion is not expected to occur until 2004, assuming improvements in grazing prospects in late 2001 and already higher calf prices stimulate heifer retention from the 2002 calf crop. The resulting reduction in the number of heifers in the feeder cattle supply may further reduce beef supplies in the second half of 2002, beyond the decline resulting from an expected downtrend in feedlot placements in late 2001. Beef production is expected to drop by about 4 percent in 2002. Fed cattle prices are expected to rise to the mid $70s to low $80s per cwt, and feeder cattle prices are expected to be in the high $80s to low $90s per cwt. Beef exports in 2002 are expected to be about 5 percent above 2001 levels.

Hog producers also are cautious about increasing the size of the hog breeding herd. Any expansion of the breeding herd next year is expected to be moderate. Recent surveys of producers imply modest growth in slaughter in 2002. Growth in pork production is expected to be about 4 percent. Live hog prices are projected to fall somewhat to the low to mid $40s per cwt. Pork exports are expected to decline 8 percent in 2002.

Lamb production is expected to fall 9 percent in 2002. Live lamb prices fell sharply from the mid $80s to the mid $50s per cwt between April and September 2001, but are expected to rebound to the mid $70s per cwt in 2002. In August 2001, the United States announced it would, in compliance with World Trade Organization ruling, end on November 15, 2001, its tariffs under Section 201 of the Trade Act of 1974. This may have little effect on lamb and mutton import levels due to the weakening of the U.S. dollar against the Australian and New Zealand dollars.

Relatively small increases in broiler production during 2001 and strong exports have resulted in lowered stocks and increased prices of most broiler products, and processors have started to increase weekly placements of chicks. Broiler production in 2002 is expected to increase about 2 percent, and broiler prices are projected to average in the low $0.60s per pound. Exports to Russia have been a significant factor in broiler demand, with an increase of over 100 percent in 2001 versus 2000. Total broiler exports in 2002 are expected to rise about 3 percent.

The structure of the livestock industries continues to evolve, with an emphasis on integration, coordination methods, and a movement away from commodity production. In the pork industry, production and marketing contracts now account for over 80 percent of all slaughter hogs. Six of the Nation's largest meat and poultry firms launched a business-to-business Web marketplace in FY 2001 for buyers and sellers of red meat and poultry products. Tyson Foods, one of the Nation's largest broiler producers, acquired IBP, inc., one of the Nation's largest processors of beef and pork. Smithfield Foods, among the Nation's largest hog producers and pork packers, acquired the beef processor Moyer Packing Company and announced plans to acquire Packerland Holdings, another large beef processor. Beef and pork packers continued to buy or build facilities that produce processed meat products, as they attempt to move into higher margin value-added markets.

Grain. Expectations of smaller corn and wheat crops combined with higher soybean consumption may help lift prices for these major crops from their lows of the past 2 years. Despite smaller crops, large grain stocks in the United States and abroad should satisfy global demand and limit any price increases, thus keeping major crop prices well below their high levels of the mid-1990s.

Domestically, low prices at planting contributed to about 4.5 percent contraction in corn and wheat acreage for the 2001 crop; soybean acreage expanded a modest 0.9 percent owing to higher anticipated grower returns vis-à-vis other crops, particularly corn. Unfavorable weather, particularly for spring crops, cut yield potential from FY 2000 levels. Smaller acreage and lower expected yields resulted in the smallest wheat crop in a decade. USDA estimates 2001 corn production 7 percent below last year's crop, which was the second largest on record. USDA anticipates a record soybean crop, although yields have been trimmed by unfavorable weather. Prices for all major crops are forecast to rise in FY 2002, but remain well below their high levels of the mid-1990s. Wheat prices are forecast to rise from $2.62 per bushel in 2000/01 to an average $2.90 per bushel in 2001/02; they had been $4.55 per bushel in 1995/96. Corn prices are projected to climb from $1.85 per bushel in 2000/01 to $2.15 per bushel in 2001/02, but remain well below their average of $3.24 per bushel in 1995/96. Soybean prices are expected to rise from $4.55 per bushel in 2000/01 to $4.90 per bushel in 2001/02, which would still be far below their peak of $7.35 per bushel in 1996/97.

Biotech corn and soybean acreage both expanded in 2001, but to differing degrees. Biotech corn as a percent of total corn acreage increased slightly from 25 percent in 2000 to 26 percent in 2001, remaining well below its peak 33 percent share in 1999. Biotech soybean acreage increased to more than 68 percent of total acreage in 2001, compared to 54 percent in 2000.

While international trade increased in response to rising consumption, the United States has experienced limited gains due to stiff competition from other major exporters. The U.S. export share in world corn markets is expected to rise to 62 percent in 2001/02 from 59 percent this year, but soybean and wheat export market shares are forecast to decline as a result of competition from low-cost producers. The United States may account for less than half of world soybean exports for the first time in recent memory due to intense competition from Argentina and Brazil. The U.S. wheat export market share is expected to contract in the face of strong gains for nontraditional exporters like India and Ukraine.

U.S. grain marketing for FY 2002 will continue to consist mainly of traditional bulk commodities, though new value-added grains requiring special handling practices should continue to make gains. Roughly one-tenth of major crops are now marketed using non-traditional practices such as identity preservation (IP), segregation, or vertical integration. While these practices preserve such quality attributes as the product moves through the marketing chain, consumers must bear the higher costs of these more rigid marketing practices. Examples of value-added grains include high-oil corn, food grade soybeans, and high-gluten durum wheat. Some customers also pay a premium for non-biotech grains, though this share remains small (about 2 percent of corn from the 2000 crop, for example).

Biotech Testing

During FY 2002, GIPSA plans to implement a program to promote greater accuracy and consistency in the testing of grains and oilseeds to detect the presence of crops derived through the use of modern biotechnology. GIPSA entered into confidentiality agreements with life science companies to obtain the necessary knowledge and reference material to develop a proficiency testing program. GIPSA will provide selected laboratories, on a voluntary basis, with samples to measure the labs' proficiency at detecting the presence of crop developed using modern biotechnology.

Process Verification Program

GIPSA is exploring the feasibility of providing a process verification program to facilitate the marketing of grains, oilseeds, and related agricultural commodities. Traditionally, GIPSA accomplished its mission by offering various grain testing services and establishing official grading standards. Today, these services and standards still play important roles in grain marketing, but do not adequately address emerging practices used to market U.S. grain. GIPSA recently published an Advance Notice of Proposed Rulemaking in the *Federal Register* seeking public comment on the Agency's and the Department's roles in facilitating the marketing of grains, oilseeds, fruits, vegetables, and nuts. Respondents commented that the Government can best serve the market by (1) continuing existing programs to standardize testing methodology and component testing, and (2) building on the success of its process verification programs for fruits, vegetables, and livestock by developing similar programs for grains, oilseeds, and related agricultural commodities. It is apparent that the market is adopting a variety of new marketing mechanisms, such as process verification, to augment traditional marketing approaches, in response to changing consumer demands. GIPSA's plan is to assess how the Agency can add value through process verification for these commodities by augmenting, not supplanting, existing market mechanisms.